Health and Tax Reform FAQs

1. Why is this proposal better than what we already have or what has been proposed so far in the House and Senate?

Answer: First of all, this is much simpler. The reason the House and Senate bills are so long and complicated is they try to modify multiple programs, each of which was designed to remedy problems left or created by what came before, but each of which created its own new laws, bureaucracy and problems. This complexity adds to the confusion and to the costs but it does not improve health care. Replacing all other government insurance programs with one needs-based federal program and expanding options for private insurance will dramatically reduce costs and complexity. In fact, rather than the thousand plus pages of the House version, the new proposal should require just a few hundred pages and that would simultaneously replace all the additional thousands of pages that currently describe the Medicare, Medicaid, SCHIP, FSA, DSH and other programs and bureaucracies. The same is true of the tax reform proposal, which would dramatically simplify how taxes are paid and collected and would replace more than twenty thousand pages of current tax law.

A second advantage of this proposal is that it much more clearly protects those who have existing insurance or basic care and wish to continue with what they already have. In addition, by allowing nationwide basic care and insurance plans, individuals and employers can participate in much larger risk pools and therefore have lower costs. At the same time, people who change jobs, move, or travel will not have to lose or change their coverage if they are part of a cross state plan.

A third and very important difference is that the new proposal includes medical, dental, mental, and vision health care plus long-term care insurance. This is not the case with existing programs or with any of the leading House or Senate proposals, all of which largely neglect dental and vision and none of which adequately address the looming crisis and costs of long-term care.

Finally, this proposal ends the linkage between the income tax code and health care. It replaces the tax code with a much simpler, fairer system that rewards savings and eliminates tens of thousands of pages of complex law and associated paperwork and bureaucracy.

2. What happens to people who are already receiving care through existing federal or state government programs?

Answer: Any citizen or legal resident whose income and assets are such that they are in genuine need will receive government support to purchase basic health care and

wraparound insurance, but this will be based on financial means, not age, state of residence, or any other category. This assistance will be provided on a continuum with those in greatest need receiving the greatest help, with those who can afford to pay more on their own bearing that responsibility themselves. This will apply to people of all ages equally. Hence, a two year old child whose family needs assistance to afford health care will receive that assistance as will a 98 year old from the same federal government program. However, if the 98 year old or the family of the two year old can afford to pay the bill themselves, they will do so without government assistance.

3. Why "means test" this program?

Answer: Our national debt exceeds 11 trillion dollars and the deficit for the past year was more than 1.4 trillion. The present value of our 75 year entitlement commitments exceeds 50 trillion dollars, more than the net worth of all the American people combined. Given that we are passing that burden of debt on to our children, who had nothing to do with creating it, we cannot honestly justify having the government borrow more money to pay for the health care of people who can afford to pay for it themselves.

4. How much would this cost per person and how much would it cost the government?

Answer: To estimate the costs of the proposal, we can look to real world examples already in place. One such example is the Qliance program from Seattle, Washington.

Qliance is a company that offers basic care through what it calls "Direct Primary Care Medical Home" at a per-patient cost of between $39-79 a month. This is not an insurance policy but prepaid basic care through which most routine medical visits are covered for a simple monthly fee with no need for complex insurance paperwork, co-pays, etc. The elimination of insurance and associated paperwork, bureaucracy etc. produces large cost savings while allowing more quality time with health care providers who are salaried rather than paid on a fee-for-service basis. Qliance also negotiates pharmaceutical and other contracts directly on behalf of their patients so these costs are kept to a minimum.

To cover higher expense and specialty services that cannot be offered within their own clinics, Qliance participants purchase separate wraparound insurance. For high deductible policies, Qliance participants typically pay about $250 per month per patient. Combined with basic care, total monthly costs not counting deductibles total around $325, with annual costs at $3,900. Contrast this with estimated annual per capita expenditures of $7,400 in the United States and it is evident that substantial savings can be realized from a different approach to health care.

Because the model I have proposed also includes dental, mental, and vision plus long-term care insurance, I researched a number of existing plans to estimate these additional service costs. If we go beyond the Qliance costs to cover additional services at $125 per month plus wraparound care at $500 per month, on an individual basis, the total monthly

cost for this care plus insurance would be $625, with annual costs of $7,500 per person. In actuality, it is very likely that costs could be substantially lower, but this is a useful upper end estimate.

This proposal does not call for everyone in the country to be covered under these sorts of plans unless they choose, but if our population of roughly 300 million people were covered by such plans the estimated cost would be approximately $2.25 trillion, which is about what we spent on health care as a nation in 2007. The difference, however, is that the calculations of the new proposal assume coverage of mental, dental, vision and long term care while current expenditures leave more than 40 million with no medical insurance, more than 100 million with no dental insurance and more than 70 percent of adults without long term care insurance. The leading House and Senate bills are virtually silent on the issue of dental and vision care or long term care. What is more, in contrast to leading proposals in the House and Senate, the alternative proposed here does not require an additional trillion dollars of expenditures, nor have we factored in the likely savings from malpractice reform, national risk pools and health promotion etc.

The bottom line then is that for what we are already spending as a nation, we can provide comprehensive basic health care including medical, dental, mental, and vision plus wrap-around insurance including long term care for those in need. This would do away with costly and complex bureaucracies, preserve and expand patient choices, and slow the growth of health care costs.

5. How would this be paid for?

Answer: The first source of funds would come from all the existing programs that would be replaced. This includes Medicare A, B, & D, Medicaid, SCHIP, DSH Hospitals, the FSA tax deductions and all of the state run programs. Money would come both from what is now spent on health care through these programs and through savings from eliminating much of the bureaucracy and overhead that goes with these programs. That will cover the bulk of the costs. In addition, because financial assistance is on a sliding scale commensurate with need, premiums paid by participants who can afford to pay a portion of the costs will help hold costs down and provide funding. Further cost savings will be realized by cutting out the costs of insurance paperwork for basic care. Savings on the costs of wraparound insurance will be realized by creating national insurance pools that all Americans can participate in, whether they are purchasing insurance on their own, through their employer, or as part of the government assistance program. Finally, malpractice reforms, cradle to grave wellness and prevention, reduction of costly emergency room visits, and other measures will further lower costs. Remaining expenses, if there are any, will be paid for from general revenues which by law will be set to levels sufficient to pay for the full costs from year to year without passing debt on to the future.

6. What would malpractice reform look like under this proposal?

Answer: Separately I have introduced legislation that sets inflation adjusted caps on non-economic damages, provides mediation alternatives to litigation, improves the quality of health care licensing and review boards, limits "frivolous" lawsuits, and reforms how medical liability insurance is regulated. All of these elements would be included in the reform.

7. How would existing individual or group health insurance policies be affected?

Answer: People would be perfectly free to keep their existing insurance if they or their employers choose to do so. Discrimination against preexisting conditions would be prohibited for all insurance and health care, and the practice of "rescission" that denies people coverage they have already paid for would be eliminated. Replacement of the income tax with a sales tax would do away with the various tax exemptions, deductions etc. that factor into current insurance, but because there would no longer be any income tax there would be no income taxes imposed on insurance either. There would, as for all services, be a modest sales tax applied at the time of purchase of insurance and health services.

8. Where would we get the general practitioners and other providers to treat people?

Answer: Regardless of which health care reform is enacted, be it the one I am proposing or the leading House and Senate versions, we face an imminent shortage of family practice doctors, nurses, general surgeons and medical specialists, along with a looming shortage of gerontologists. We must immediately address this through a combination of educational support and incentives in schools of medicine, dentistry, nursing, psychology and other disciplines. Compensation rates must also reward these professions to sufficiently provide ongoing incentives throughout the professional careers of these practitioners.

9. How is the individual mandate enforced?

Answer: Everyone would have to participate in a basic health care and insurance program. Those with existing coverage could keep it as is. Those who lack coverage now, either through personal choice or lack of resources, would be required to choose a plan and pay for it according to their means with government assistance for those in need. Those who do not enroll in basic health and insurance would be penalized with fines, much as those who do not have auto insurance must pay fines. The level of the fine would be sufficient to make it unrewarding financially to dodge ones personal and legal responsibility.

10. What holds down costs in this model?

Answer: Cost control is included in virtually every element of this plan. Simplification of government programs and elimination of multiple federal and state bureaucracies will produce substantial savings as will means testing of benefits at all ages. Providing basic health care without the overhead of insurance paperwork has been proven to dramatically

lower costs. Creation of nationwide basic care and insurance programs will expand risk pools and increase competition, thereby lowering the costs of insurance. Requiring that everyone have basic care and insurance will reduce costly ER visits and uncompensated care. Comprehensive malpractice reforms will improve patient care, reduce medical errors and lower the costs of litigation and insurance. Incentives for health behaviors plus cradle-to-grave coverage will help reduce preventable illnesses and promote healthy decisions and treatment compliance. Proposed reforms in taxes will obviate the billions of hours spent on income taxes each year and eliminate the hundreds of billions of "tax expenditures" that are lost in the current code.

11. Why reform the tax code at the same time?

Answer: It is not absolutely necessary to reform both health care and taxes simultaneously, but the current system that enmeshes health care payments and incentives in the tax code is a mistake that leads to costs, inequities and excessive expense. Further, the current tax code carries with it huge costs and inefficiencies that hamstring our economy and waste billions of valuable human hours. If we are going to grow our economy, we ought to take this opportunity to fix both health care and the tax code.

12. Isn't a sales tax necessarily regressive?

Answer: Traditionally people have assumed that sales taxes place higher burdens on lower income earners, but that is not the case in this proposal. The reason is that the sales tax percentage would increase commensurate with price so that higher priced goods and services would be taxed at higher percentage rates. Consider the example of a baseball ticket. Five to ten dollar tickets might have a very small sales tax percentage tacked on, while the much more expensive seats would be taxed at a higher percentage. The average fan pays a small tax on the ticket, those who can afford the "high priced" seats pay a bit more, but on April 15th nobody has to sweat the income tax.

In addition to progressivity of the sales tax itself, there would also be a tax on inheritance above a certain level but with sufficient exemptions to maintain family farms and businesses. In addition, a time indexed tax on capital gains would reward savings and true investment but more heavily tax speculation.

13. Isn't this just another big bureaucracy?

Answer: No. First of all, this proposal would eliminate multiple existing programs each of which has its own bureaucracy and underlying laws, overhead and inefficiency. Medicare, Medicaid, Flexible Spending Accounts (FSAs), SCHIP, and all state run health care programs would be eliminated. What would take their place is far simpler and more straightforward.

Consider this: Right now we have a Medicare program that sets different compensation rates for thousands of different medical procedures at different levels for different locations across the country. Every year countless interest groups – doctors, patients,

insurers, hospitals, etc. descend on Washington DC asking for specific changes to one aspect of this law. We also have Medicaid, which requires negotiations and intergovernmental agreements that can differ from each state and requires both Federal and State agencies to administer. Because many people want more coverage than Medicare provides, there are Medicare supplemental policies, all of which must be regulated and monitored in some way. Then we have SCHIP, that covers children not covered by Medicare and Medicaid but which also can vary from state to state. On top of all that, we have FSAs, which first withdraw money from people's salary so they can avoid taxes but then requires all sorts of paperwork and encourages additional spending if people want to get their own money back. We can and should do away with all of this.

What I have proposed would involve just one agency to administer all government health and one agency to oversee cross state basic care and insurance plans. The agency would not set compensation rates for doctors or determine payment rates for specific procedures. That would be left up to the basic care and wraparound insurance plans to determine as their model of care and financial structure determined.
This agency would manage the distribution of supplemental funds that go to basic care and insurance plans.

The second agency would function much as state insurance commissioners do, but on a national scale to regulate and monitor the rates, financial soundness and quality of care provided by cross state plans and to provide an entity to manage claims or grievances filed against a cross state plan.

14. Isn't it true that most people like the income tax and don't want to change?

Answer: To read some of the blogs and other chatter about this proposal one might think so. If it is, I must have missed all the "pro income tax" celebrations that spontaneously break out every April 15th all across the land. I must also have forgotten how much fun and how easy it is for everyone to fill out their income tax forms and manage all the paper work every year. I'm sure we'd all rather do that than go fishing, or spend time with our families, or actually focus on getting our businesses and manufacturing to do what they are really meant to do to begin with.

15. Won't it be too complicated to collect sales taxes?

Answer: Most states and local communities already collect sales taxes so the basic mechanisms are already in place. There would need to be a change to implement progressive sales tax rates, but with technology that exists today it is certainly not difficult to tell a computer to tax a ten dollar item at a certain percentage and a fifty dollar item at a slightly higher percentage.

16. People will just find ways to avoid the sales tax won't they?

Answer: Some will, but people now find ways around the income tax to an astonishing degree. Under the current income tax system the IRS estimates the "tax gap", i.e. the

difference between the amount that should have been paid and what was actually collected at $345 billion per year and that does not include income from illegal activities like illicit drug sales and other crime. At least with a sales tax even those who try to hide income or come by it illegally still have to buy things and hence pay taxes. Of course one can also legally "avoid' or lower sales taxes by saving more and consuming less. Given our 60 billion dollar plus per month trade deficit and enormous personal and fiscal deficits and debt, increasing savings is a good thing and we ought to reward it.

17. Will the government just add the sales tax onto the existing income tax?

Answer: That is absolutely not allowed in this proposal. Some have called for adding a sales or Value Added Tax (VAT) onto the existing income tax. I'm calling for replacing the income tax entirely, not adding to it and I am not calling for a VAT.

18. Will the government start using the sales tax to favor certain products over others?

Answer: I would hope this is kept to a minimum but we have to recognize that it already happens through the income tax in a terribly biased and inefficient way. When the government gives income tax deductions or credits for buying certain products that tends to favor those who file income taxes and itemize deductions more than those who don't and it adds all sorts of complexity to the tax code and to the annual filing of individuals and businesses. Part of the reason so many businesses now have enormous accounting divisions is just to keep up and take advantage of the income tax code. Tax law also comprises a great deal of the lobbying focus in Washington DC. If government chose to do away with the income tax, it would still be possible to favor certain products or activities by adjusting sales taxes instead, but would all be done at the point of sale and would require no added effort, paperwork or knowledge whatsoever on the part of the purchaser/taxpayer. That is far more efficient and fair.